

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54866; File No. SR-Amex-2006-111)

December 4, 2006

Self-Regulatory Organizations; American Stock Exchange LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Odd-Lot Rejections by Away Markets in the AEMI-One Pilot

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on November 29, 2006, the American Stock Exchange LLC (“Amex” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been substantially prepared by the Exchange. Amex has filed this proposal pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(5) thereunder,⁴ which renders it effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to adopt changes to its AEMI-One rules to provide for the execution of an unexecuted odd-lot balance on an aggressing order as the result of an unexecuted odd-lot balance on an away market obligation that was routed to another market by the AEMI platform to access a better-priced protected quotation.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(5).

The text of the proposed rule change is available on the Amex's Web site at <http://www.amex.com>, the Exchange's principal office, and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. Amex has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange has recently adopted new rules to implement an initial version of AEMI, its proposed new hybrid market trading platform for equity products and exchange-traded funds.⁵ This initial version of AEMI is referred to as AEMI-One and is operational on a pilot basis through February 4, 2007. Under the AEMI-One pilot, the AEMI platform will route orders to better-priced protected quotations of away markets. Such "away market obligations" (as defined in Exchange Rule 131–AEMI-One) are sent only in round lots. Although the quotation of an away market that AEMI is attempting to execute against is also expressed in a round lot, the possibility exists that fills at certain away markets may include odd lots since AEMI uses private linkages instead of ITS to access such quotations in the AEMI-One pilot. For example, if Nasdaq is displaying a better bid than Amex for 200 shares of XYZ Corp. and there is an

⁵ See Securities Exchange Act Release No. 54709 (November 3, 2006), 71 FR 65847 (November 9, 2006).

aggressing sell order in AEMI, Amex will send an away market obligation to Nasdaq (in the form of an immediate or cancel order or an intermarket sweep order) and could receive back an execution in the form of two trades for 160 shares and 40 shares, respectively.

Consequently, the possibility exists that, under unusual circumstances, AEMI might receive only a partial fill on a round-lot order and be left with a rejected odd-lot portion of a round-lot order that was suspended on the AEMI Book. In the example cited above, it is possible that 160 shares out of the 200 shares routed away would be filled but that the balance of 40 shares would be rejected. The Exchange's current Rule 205-AEMI-One addresses odd-lot orders that are submitted to AEMI as such, but it is not applicable to a rejected odd-lot portion of an order submitted for a round lot, since the latter was not intentionally for an odd lot but became an odd lot due to the action of another market.

The Exchange believes that the situation described above, in which the Exchange would be left with a rejected odd-lot portion of an away market obligation that was transmitted to another market as a round-lot order, will be a rare event. However, it is necessary to make appropriate changes to the AEMI platform and to the Exchange's AEMI-One rules to provide for this possibility.

The Exchange is therefore proposing to add language to Rule 205-AEMI-One (Manner of Executing Odd-Lot Orders) to distinguish such occurrences from the treatment of odd-lot orders that are submitted as such and to provide for the proper treatment of such odd-lot rejections by other markets. Proposed new paragraph (b)(viii) of the rule would provide that, if a partial-lot trade is received from an away market in response to an away market obligation sent by AEMI, resulting in an unexecuted balance which comprises an odd lot, then any unexecuted odd-lot balance on the aggressing order (including the unexecuted odd-lot balance from the away

market obligation) shall be traded immediately against the Specialist at the last trade price of the away market obligation, and any remaining unexecuted round-lot balance shall reaggross the AEMI Book in accordance with Rule 126A-AEMI-One.⁶

The following examples illustrate how the proposed additional rule provision would operate:

Example 1: Assume an incoming client order to buy 100 shares of XYZ Corp. AEMI routes the entire order to Nasdaq to access a better-priced offer. If the Exchange receives back a trade for only 80 shares at the limit price and a rejection for 20 shares, that 20-share odd-lot balance would trade against the Specialist at the same price as the 80-share execution on Nasdaq.

Example 2: Assume an incoming client order to buy 130 shares of XYZ Corp. AEMI routes 100 shares to Nasdaq to access a better-priced offer. If the Exchange receives back a trade for only 80 shares at the limit price and a rejection for 20 shares, the unexecuted odd-lot balance on the order of 50 shares (including the unexecuted odd-lot balance of 20 shares from the away market obligation) would trade against the Specialist at the same price as the 80-share execution on Nasdaq. This is the same outcome for the order that would have resulted if the execution at the away market had been for the entire 100 shares that was routed to that market.

Example 3: Assume an incoming client order to buy 280 shares of XYZ Corp. AEMI routes 200 shares to Nasdaq to access a better-priced offer. If the Exchange receives back a trade

⁶ In a situation where the original aggressing order in AEMI was a non-exempt short sale and the aforementioned unexecuted odd-lot balance from the away market obligation could not be traded against the Specialist at the last trade price of the away market obligation without violating the Exchange's short sale tick test (Amex Rule 7), the Exchange would need to have received exemptive or no-action relief from the Commission from the requirements of Rule 10a-1 under the Act and the Exchange's related short sale rule in order to avoid leaving that odd-lot balance unexecuted. The Exchange has prepared a request for such relief and is submitting it to the Commission separately.

